

Michael D. Ralston
Director



IOWA DEPARTMENT OF REVENUE

Hoover State Office Building
Des Moines, Iowa 50319
Telephone: (515) 281-3204 • www.state.ia.us/tax

June 28, 2004

Dear Iowa Sales Tax Permit Holder:

In 2003, Iowa law was changed (effective July 1, 2004) regarding how the sales tax is sourced or applied. Since that time, the Iowa Department of Revenue has been working with others to educate retailers about the change and how to comply. I know that for those businesses shipping or delivering their products by common carrier to customers in several locations, it may be a large undertaking to comply with the new destination-based sourcing rules in correctly computing, collecting and reporting the appropriate local option sales tax. The purpose of this letter is to provide some further clarification and to relieve some anxiety about how to comply.

Please keep in mind that the Iowa law was changed to allow Iowa to participate in the Streamlined Sales Tax Project and to collect sales tax from internet sellers that compete with our Iowa retailers. The end goal is that Iowa sales/use tax will be collected and remitted in a fair and equitable manner. This legislation will ultimately benefit Iowa retailers that are competing with the larger Internet and multi-state businesses as well as the general public by collecting revenues that are currently owed to the State of Iowa.

The Governor and General Assembly have directed our department to work with retailers regarding implementation of the sourcing changes and of course that is our objective as well. Thus, during what is described as an "implementation phase" between now and the end of the year, staff has been instructed to be very relaxed in their dealings with retailers. Our focus will be on service, not sanctions.

Let me reassure you that the Iowa Department of Revenue will be most understanding of the plight of businesses that have to change how sales tax is collected and remitted. We are working right now to provide some tools to assist businesses, including software and additional information on our website about local option tax rates.

The legislation will go into effect on July 1, but realistically, it may be several months before retailers are able to become fully compliant. All that is asked now, in this implementation phase between July 1 and the end of 2004, is that you study the new rules, do your best to collect the information, and report the tax at the rates in effect where the product is delivered. We will do our best to get the new computerized information available as soon as possible and to assist you as needed.

Do not hesitate to call us and ask for help. We are learning, just as you are. And, in audit situations now or in the future involving transactions made during this period, retailers will be protected from over-zealous enforcement. **Auditors and tax examiners will not penalize anyone for making errors in this initial six-month period**, as long as an honest effort is made to comply.

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As more information about the impact of these rules on specific businesses becomes available, additional bulletins may be issued to help you comply. Our department would also like to hear from you about business-specific problems you may be experiencing, so we can help develop solutions. Please continue to check the department website for updated information. Our focus will be on helping you adjust your systems and solving problems that may arise.

Iowa is an active participant in the Streamlined Sales Tax Project, and as part of the movement of uniformity among states, Iowa is adopting the same system as the other states joining the Streamlined Sales Tax Agreement. While policy makers and our department regret the inconvenience this will cause, we believe the long term benefit will be long-lasting for our state. We ask for your patience through this learning process.

Please do not hesitate to contact the department if you need further assistance. The IDR Taxpayer Service Section can be reached at (800) 367-3388 or electronically at idrf@idrf.state.ia.us and my office number is (515) 281-3204. And of course you can access the IDR website at www.state.ia.us/tax. Thank you very much.

Sincerely,

Michael Ralston
Director